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Before the FEDERAL COMMUNICATIONS COMMISSION Washington, D.C.

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Equal Access and Interconnection)	CC Docket No. 94-54	CF OF SECURITY OF THE PROPERTY
Obligations Pertaining to)	RM-8012	SECRETARY MISSION
Commercial Mobile Radio Services)		

REPLY COMMENTS OF VANGUARD CELLULAR SYSTEMS, INC.

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REPLY COMMENTS OF VANGUARD CELLULAR SYSTEMS, INC.

Vanguard Cellular Systems, Inc. ("Vanguard") hereby submits the following Reply Comments in response to the above-captioned Notice of Proposed Rule Making¹/

I. <u>INTRODUCTION AND SUMMARY</u>

In its initial Comments, Vanguard urged the Commission to reject its tentative proposal to impose MFJ-like equal access obligations on independent cellular CMRS providers. Originally conceived as a way to mitigate landline LEC control over "bottleneck" local exchange facilities in order to promote the development of a competitive long distance market, equal access requirements make no public policy sense when applied to a wireless marketplace that currently is competitive and becoming more so each day. Independent cellular providers control no access bottlenecks, possess no market power, and face a rapidly proliferating number of strong wireless competitors. Given these circumstances, many parties share Vanguard's view that the Commission's proposed introduction of additional regulatory burdens and distortions into the CMRS marketplace is legally unsupported and illadvised. Equal access obligations -- which promoted competition and consumer choice in the landline-based world of the MFJ -- will ironically have the counter-intuitive effect of decreasing competition and choice when applied to cellular and other CMRS providers.

See In the Matter of Equal Access and Interconnection Obligations Pertaining to Commercial Mobile Radio Services, CC Docket No. 94-54, RM-8012, Notice of Proposed Rule Making and Further Notice of Inquiry (July 1, 1994) (Notice).

In particular, the numerous comments received from cellular CMRS providers, non-BOC and BOC alike, detail the significant costs that equal access has already or will impose on cellular providers and their subscribers. Notwithstanding the self-serving comments of a handful of long distance companies for whom equal access constitutes a regulatory windfall, the other side of the public interest balance reveals no countervailing benefits to the Commission's proposal. In the final analysis, the Commission's proposed intervention in the CMRS marketplace will simply operate to redistribute revenue from independent cellular operators — including the small and medium-sized providers who can least afford it — to the large IXCs. As Professor Jerry Hausman has observed, such an outcome, "which favors IXCs at the expense of both cellular customers and CMRS providers," is not consistent with "the pro-competitive policy which the FCC has sponsored in other areas of the wireless industry." The Commission has worked hard to structure a competitive CMRS marketplace, and the public interest simply does not support the Commission's proposal to burden the emerging wireless industry with intrusive and unwarranted regulatory requirements.

Finally, with respect to interconnection issues, Vanguard supports the market-based approach generally endorsed by the majority of commenters. Because the CMRS market is developing so rapidly, Vanguard strongly believes that questions regarding the interconnection obligations of LECs to CMRS providers, or of CMRS providers to one another, are at this juncture safely and best left to the marketplace. There is little empirical or theoretical basis for incurring the harm that could arise from imposing interconnection obligations for which there is little suggested need, and which could distort the development of the emerging CMRS industry.

See Comments of Vanguard Cellular Systems, Inc. (Sept. 12, 1994), Attachment 1, Statement of Professor Jerry A. Hausman (Sept. 9, 1994) (Hausman Statement), at ¶ 16.

II. EQUAL ACCESS ISSUES

A. The Record Confirms that Mandatory Equal Access Obligations Are Not in the Public Interest.

A wide cross-section of cellular CMRS providers has emphasized the conspicuous absence of cogent historical, legal or public policy bases for introducing additional layers of costly and burdensome regulation into the wireless marketplace. These parties have thoroughly documented the negative public interest consequences that will attend the imposition of mandatory equal access obligations on independent cellular providers, and offer compelling reasons for the Commission to abandon its tentative proposal. These include:

1. Equal access requirements have little conceptual meaning or utility in light of the current and emerging competition in the wireless marketplace --

Vanguard and many other commenters have consistently observed that equal access obligations were special creations of the AT&T divestiture decree, intended to ensure that BOCs did not use their then-monopoly control over local exchange access bottlenecks to behave in a manner that would inhibit the development of interexchange competition to AT&T. There is no such "bottleneck" in the wireless marketplace. To the contrary, the Commission has recognized repeatedly that competition exists in the provision of cellular service, and many parties have stressed the degree to which this competition is being continually augmented by the proliferation of other CMRS providers, including PCS and

See, e.g., Comments of ALLTEL (Sept. 12, 1994), at 2-5; Comments of Comcast (Sept. 12, 1994), at 21-23; Comments of CTIA (Sept. 12, 1994), at 5-11; Comments of GTE (Sept. 12, 1994), at 19-29; Comments of Southwestern Bell (Sept. 12, 1994), at 19-24.

<u>4'</u> <u>See Comments of Vanguard at 5-6.</u>

ESMR licensees. 5/ It is this competition, and not obligations imposed by regulatory fiat, that should determine whether equal access is provided in response to consumer demand. 6/

2. Equal access requirements will burden independent cellular providers with significant, unnecessary implementation and administrative costs that will have an especially severe impact on small and medium-sized carriers and their subscribers --

The comments further underscore the tremendous implementation costs that many independent providers will incur if equal access obligations are extended to them.

GTE, for example, estimates that its cost for implementing equal access obligations will be in

Given the quite remarkable performance of the cellular industry with only two carriers and much more limited capacity, the future of the mobile services industry is likely to be especially bright, with firms offering a wide array of new services and even lower prices than in the past for existing ones. In these circumstances, the best approach for regulators is to eliminate regulatory-imposed barriers to entry as rapidly as possible so that competitive market forces can determine the performance of the industry. Regulators would be at odds with developing market forces if they were to impose more stringent requirements on cellular carriers just as industry concentration is declining so dramatically.

Stanley M. Besen, "Concentration, Competition, and Performance in the Telecommunications Services Market" (Sept. 9, 1994), at 19-20 (Attachment A to Comments of GTE).

See, e.g., Comments of Airtouch (Sept. 12, 1994), at 5 (noting that Airtouch decision to continue "1+" access after spin off for the Pacific Telesis Group was made "not because of regulatory requirements but because of the demand of the marketplace — a marketplace where customers are free to compare and make rational economic choices among the offerings of cellular competitors, resellers, ESMRs, and imminently, PCS. Airtouch's decision underscores the critical factor relevant to the Commission's determinations: government-defined methods of achieving equal access are wholly unnecessary in the dynamic CMRS marketplace. Consumer choices will be available without regulatory intervention.").

Pointing to this framework of increasing wireless competition, Professor Hausman observes that "[t]o the extent that consumer demand exists for presubscription to a long distance carrier different from the one offered by the cellular carrier, the rapidly expanding competition in the CMRS marketplace will accommodate that demand, and an increasing opportunity will exist for wireless providers and IXCs." Hausman Statement at ¶ 15. Similarly, Dr. Stanley Besen of Charles River Associates observes:

excess of \$23 million.²⁷ Such costs not only have the potential to raise subscriber prices, but also to diminish severely the amount of available capital that providers might otherwise invest in expanding coverage, implementing digital upgrades or otherwise improving their systems. Moreover, these costs inflict particular hardship upon small and medium-sized providers, who lack the financial resources to spread their implementation costs because of relatively small subscriber bases.⁸/

3. Equal access requirements will not, as evidenced by the experience of BOC-affiliated cellular carriers, result in lower prices to cellular customers --

The Commission is not implementing equal access in a vacuum. It instead has a "case study" directly on point -- the experience of BOC-affiliated cellular carriers -- which it can and should use as data to gauge the wisdom of further extending such obligations to other sectors of the CMRS marketplace. In this regard, Vanguard's initial Comments pointed out that based on a review of the BOC cellular affiliate experience with equal access implementation, extending such obligations to non-BOC cellular providers will <u>not</u> result in

See Comments of GTE at 17; see also Comments of Century Cellunet, Inc. (Sept. 12, 1994), at 2, 4-5 (estimating initial implementation costs of equal access at \$13,000,000); Comments of the Rural Cellular Association (Sept. 12. 1994), at 6 (noting that most RCA member companies will be required to modify the software and/or hardware in their switches in excess of \$500,000 per switch and some may have to replace their switches at greater cost); Comments of Telephone and Data Systems, Inc. and United States Cellular Corporation (sept. 12, 1994), at 5-6 (estimating total recurring yearly costs of equal access at \$780,000).

See, e.g., Comments of Century Cellunet at 6; Comments of OPASTCO (Sept. 12, 1994), at 3.

lower prices to customers. 21 The comments of several BOC commenters substantiate this conclusion. NYNEX, for example, observes:

It is NYNEX's experience that equal access has not resulted in lower long-distance rates for cellular consumers. Although equal access has been available for nearly ten years, interexchange carriers have generally not offered NYNEX's cellular customers calling plans specifically targeted to cellular use. Nor have ICs offered packages that reduce rates for combined wireline and cellular usage. There is no reason to expect that ICs will do so if equal access is mandated for all cellular and CMRS providers. 10/

Similarly, Southwestern Bell's experience has been that "[i]n effect, MCI uses equal access and the lack of price competition in the long distance market to force the individual cellular long distance customer to subsidize the large customers." 11/2

4. Equal access will deprive customers of the benefits of regional clustering and innovative wide-area calling plans

Many parties supported Vanguard's observation that cellular carrier toll-free calling areas have evolved based on customer demand and the specific needs of mobile users. Independent cellular providers like Vanguard have created integrated regional system clusters that essentially offer customers wide-area "local" calling from anywhere within the regional cluster, which means that such subscribers in most cases pay less for calls that would otherwise be classified as landline "long distance" calls. As Vanguard showed, reconfiguring

Professor Hausman has shown, for example, that although AT&T has significantly lower access costs in the cellular as opposed to the landline telephone context, it charges BOC cellular customers the same price as landline long distance customers. Because no meaningful competition among the IXCs exists for BOC cellular traffic, AT&T and other IXCs are not constrained by competition to pass the lower cellular access costs through to customers in the form of lower long distance prices. To the contrary, because the ability of cellular companies like Vanguard to buy long distance service in bulk will be eliminated by equal access, Professor Hausman predicts that non-BOC cellular long distance prices will also increase since the cellular companies' marginal costs will rise. Hausman Statement at ¶ 33.

¹⁰/ Comments of NYNEX (Sept. 12, 1994), at 4.

Comments of Southwestern Bell (Sept. 12, 1994), at 29.

these areas according to any artificially-imposed equal access boundary, and particularly the LATA boundaries that certain IXCs have proposed, will not only disrupt service and increase implementation costs, but will also cause customers to pay more for long distance service by virtue of losing the benefits of these "seamless" regional clusters. ^{12/} Indeed, one dramatic example of this effect may be manifested immediately as a result of McCaw's recent decision to subject itself to equal access obligations in order to complete its announced merger with AT&T. Southwestern Bell observes that following approval of the AT&T/McCaw consent decree, McCaw will likely dismantle its South Texas and City of Florida "Supersystems," and no longer absorb long distance rates or transport across LATA boundaries absent waivers. Vanguard agrees that such an occurrence would be "excellent news for interexchange carriers, who will see long distance charges at premium rates once again." ^{13/}
It would also be bad news for consumers.

5. Equal access requirements will eliminate efficiencies realized from vertical integration or bundling of services

In the current environment, IXCs compete for interexchange traffic generated by independent cellular operators. Independent mobile carriers are thus able to negotiate extremely favorable volume discounts and other special arrangements with particular IXCs

Using rates obtained from AT&T, Vanguard's analysis of one medium-sized market, Allentown, showed that Vanguard's Allentown customers would have been charged an additional \$45,749 in the month of August alone for long distance calls that would currently be toll-free. Comments of Vanguard, Jones Declaration at ¶ 7. Many other cellular providers have made this same point. See, e.g., Comments of GTE (Sept. 12, 1994), at 12 (observing that in Texas, GTE provides its cellular customers with toll-free calling over a 34,000 square area); Comments of Southwestern Bell (Sept. 12, 1994), at 39-42 (noting Cellular One of West Texas's 30,000 mile square "Supersystem" where cellular calls can be placed with no log distance charges; McCaw's South Texas and "City of Florida" Supersystems with no long distance charges applying for calls within the systems; and Dobson Cellular's "Perfect Plan Plus" which includes 48 state toll-free calling from the home area for a flat rate).

See Comments of Southwestern Bell (Sept. 12, 1994), at 41.

because they have the buying power to do so. Independent cellular providers are able to pass the benefits of those discounts through to consumers, either directly in the form of price decreases, or indirectly through the development of network infrastructure, expanded calling areas or innovative service packages. These customer benefits will be lost as a direct result of equal access implementation.¹⁴/

For example, Comcast has observed that its bulk purchases have enabled it to offer customers free unlimited long distance calling on weekends, with only a charge for cellular airtime. Vanguard will soon be offering a similar capability. Beginning on November 1, 1994, Vanguard will offer its customers in the Charleston, WV and Huntington-Ashland, WV/KY/OH cellular markets, on a trial basis, the option of paying \$9.95/month for the ability to make unlimited, toll free calls nationwide from anywhere within their home service area, with only a charge for cellular airtime. Under an equal access regime, such innovative service options will not occur, because independent cellular providers will no longer be able to attract volume discounts and pass cost savings on to their subscribers in this fashion.

B. The Claimed "Benefits" of Equal Access Are Illusory and Nonexistent.

In contrast to the voluminous evidence of the extremely large public interest costs of equal access implementation, the small number of interexchange carriers who will be the sole beneficiaries of this policy offer self-serving justifications that simply cannot withstand scrutiny.

The argument, for example, that equal access is necessary to promote customer choice is problematic on several fronts.

 $[\]underline{\underline{14}}$ See id. at 27-29.

Comments of Comcast Corporation (Sept. 12, 1994), at 29; Opposition of Comcast Cellular Communications, Inc. (Sept. 2, 1992), at 7.

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First, as a factual matter, the IXCs' assertion that such choice is not presently available in the cellular marketplace is simply wrong. 16/2 Virtually every customer can have equal access capability if he or she desires it by virtue of the presence of a BOC-affiliated carrier in most cellular markets. 17/2 Furthermore, as CTIA correctly points out, independent cellular providers like Vanguard have been competing successfully with BOC-affiliated providers for years in spite of not offering equal access presubscription. If equal access were truly desirable to customers in particular markets, independent cellular carriers would implement it. Yet in Vanguard's Allentown, Pennsylvania market, for example, equal access is not marketed by the BOC-affiliated carrier as a customer advantage. That is because it is not.

Second, virtually <u>all</u> independent cellular providers currently provide access to the customer's cellular carrier of choice through 800, 950, or 10XXX arrangements.

Although it is correct that customers are not offered the ability to presubscribe to their carrier of choice, there is virtually no evidence that customer demand is sufficient to warrant the imposition of such tremendous costs. 18/

 $[\]underline{16}$ See, e.g., Comments of LDDS (Sept. 12, 1994), at 12.

According to CTIA, approximately 95% of the population in the nation's 50 largest markets enjoys the option of choosing BOC-affiliated cellular service. See Comments of CTIA (Sept. 12, 1994), at 11.

See, e.g., Comments of Airtouch (Sept. 12, 1994), at 4 ("Extensive surveys, focus groups, and secondary market research led us to conclude that most customers simply want the lowest overall monthly charges possible, wide area coverage, a single bill, and quality connections. The ability to select any long distance carrier generally had little value to most customers."); Comments of CTIA (Sept. 12, 1994), at 11 (observing that "there appears to be no measurable demand by consumers of unaffiliated cellular carriers to offer equal access"); Comments of Southwestern Bell (Sept. 12, 1994), at 33 (discussing customer survey where choice of long distance carrier was rated least important factor among various options).

This in turn plays into a broader point. If LDDS is correct that "[e]qual access only will develop as a result of regulatory requirement, not market forces," than equal access should not develop. The marketplace is precisely the force that should determine the degree to which options such as presubscription should develop, because the market is the best determinant of the features that customers value. To the extent customers do desire equal access in the form of presubscription, independent cellular or other CMRS providers will naturally seek to provide it. 20/

IXCs also claim that equal access increases customer "buyer power" in the interexchange business. ²¹ In fact, however, the experience with the equal access obligations of BOC-affiliated carriers suggests that IXCs use equal access and the lack of price competition in the long distance marketplace as a way of forcing individuals to subsidize the buying power of larger business customers. ²² Equal access actually lessens

^{19/} Comments of LDDS at 4.

LDDS further argues that the continuing emergence of competition to cellular in the wireless market is a "red herring" because each local wireless carrier still will retain control over access to its respective customer base, and thus, a need for equal access obligations is present regardless of the level of competition in the wireless industry. This argument is at once factually incorrect and absurd. First, unlike the historical landline "bottleneck" context, IXCs in the wireless market have many options for reaching cellular subscribers, including: 1) marketing to and accessing any cellular customer through dial-around arrangements; 2) marketing to customers on behalf of BOC-affiliated providers to encourage presubscription through those carriers; and 3) partnering with independent or emerging mobile services providers to access any desired customer group. Furthermore, to argue that the presence of competition in the CMRS marketplace does not correlate with or affect the need for regulation is simply wrong. One of the fundamental goals of this proceeding is to "refocus competitors' efforts away from strategy in the regulatory arena and toward technological innovation, service quality, competitive pricing, and responsiveness to consumer needs." Notice at ¶ 2.

 $[\]underline{\underline{21}}$ See Comments of AT&T (Sept. 12, 1994), at 5.

In the BOC Generic Wireless Waiver proceeding, the Department of Justice relied upon an affidavit from a Dow Chemical employee as evidence that customers desire equal access. See Affidavit of Larry Jacobs, No. 82-0192 (HHG) (July 22, 1994). Dow claims that it receives a 50 percent discount off of AT&T and MCI rates as a result of its call volume. Yet, as

competition in the IXC industry because these carriers no longer must vigorously compete to serve the long distance traffic aggregated by cellular carriers, and can once again charge subscribers premium long distance rates with no accompanying benefits.^{23/} Equal access also eliminates IXC competition from a significant number of cellular providers that currently provide long distance service via resale or otherwise. In the end, equal access simply accomplishes a revenue transfer to a small group of IXCs at the expense of cellular providers and consumers. This is obviously not a "benefit," and it is not in the public interest.

C. Equal Access Implementation.

Vanguard has registered its strong opposition to any extension of equal access obligations to independent cellular providers. If the Commission nevertheless moves forward to impose some form of regulatory obligation on these providers, Vanguard once again urges the Commission to specifically tailor such obligations to the CMRS marketplace.²⁴/

Southwestern Bell appropriately observes, large customers with the buying power of Dow will always be able to negotiate deep discounts with the interexchange carrier of their choice:

The bitter irony is that the premium rate from which Dow and other heavy users receive discounts, is the same rate the individual long distance cellular customer, with no bargaining power, is assessed by these interexchange carriers. This is true in spite of the fact the interexchange carrier could (but does not) pass through to these low-usage customers the savings it realizes from the lack of exchange access charges on cellular long distance.

Comments of Southwestern Bell (Sept. 12, 1994), at 28.

Those independent cellular carriers, for example, who do not pass through the savings of "bulk" rates to customers plow this revenue back into their systems -- providing expanded toll-free calling areas and unique service offerings. Shifting revenues to the IXCs merely deprives customers of these benefits.

Vanguard has proposed that, at a minimum, independent cellular providers be given an equal access phase-in period similar to independent local exchange carriers, <u>i.e.</u>, three years from the time a <u>bona fide</u> request for equal access service is received to convert certain end offices and switches. <u>See MTS/WATS Phase III Order</u>, 100 FCC 2d at 862-63; <u>Notice</u> at ¶ 52.

In determining the scope of "equal access" obligations for independent cellular CMRS providers, for example, the Commission could mitigate some of the negative effects of marketplace intervention by requiring simply that customers of independent cellular providers be able to route calls to the IXC of their choice, without dictating a requirement of "1+" presubscription for all carriers. Such a rule would permit independent cellular providers to satisfy their equal access obligations by using dial-around arrangements like 10XXX dialing. As Airtouch observes, this option preserves subscriber choice, but does not incur the costs and other inefficiencies spawned by the full panoply of landline regulatory requirements. Furthermore, because 10XXX dialing can be programmed into most handsets today as a digital speed dialing option, such an arrangement is effectively equivalent to "1+" dialing. 26/

With respect to service areas, Vanguard urges the Commission to reject the attempts of IXCs to impose LATA boundaries as the point of call handoff under any newly imposed equal access requirement. The Commission itself has acknowledged that the calling areas of many mobile services are not confined to the LATA boundaries imposed on the BOCs by the MFJ, and the comments make clear the degree to which obsolescent landline-based regulations fail to match the development of the wireless market or meet the needs of mobile users. Indeed, the vast majority of CMRS providers have acknowledged

^{25/} See Comments of Airtouch (Sept. 12, 1994), at 7-8.

 $[\]underline{\underline{1d}}$. at 8.

See Comments of AT&T (Sept. 12, 1994), at 10-11; Comments of LDDS (Sept. 12, 1994), at 19; MCI Comments (Sept. 12, 1994), at 3-4; Comments of Wiltel (Sept. 12, 1994), at 14.

Indeed, the primary arguments of IXCs purportedly justifying adoption of LATA-based service areas actually highlight the overall inappropriateness of applying equal access obligations in the CMRS context. AT&T, for example, argues that LATA boundaries are appropriate because they are used to define the landline equal access obligation, and as a

the necessity of adopting large MTA areas in order to avoid stifling the continued development of the innovative, wide-area service offerings that customers demand. It is vital to the development of the CMRS marketplace that the Commission refrain from imposing restrictive geographical limits which deprive customers of CMRS benefits.

III. <u>INTERCONNECTION ISSUES</u>

Finally, with respect to interconnection issues, Vanguard supports the market-based approach generally endorsed by the majority of commenters thus far. Most parties agreed with Vanguard that with respect to LEC-to-CMRS provider interconnection arrangements, the CMRS market would be better served by retention of the current practice of good faith negotiations rather than tariffs. The CMRS marketplace must feature the necessary flexibility to accommodate the rollout of a constantly evolving set of new wireless services. Negotiated interconnection arrangements are far more likely than tariffs to achieve this goal, and to adapt flexibly to CMRS' providers evolving needs for new forms of interconnection.

The same principle holds true for mandating CMRS-to-CMRS interconnection or switch-based interconnections with cellular resellers. At present there is no empirical or theoretical justification for imposing such obligations. In addition, the risk is high, as Dr. Bruce Owen (testifying in support of McCaw) observes, that such requirements "will promote inefficient interconnections, and deter or distort investments in the rapidly expanding and changing market for mobile services." Vanguard agrees with Dr. Owen's overall

result, "each interexchange carrier's network has been built to ensure a presence in each LATA the interexchange carriers serves." Comments of AT&T (Sept. 12, 1994), at 11. AT&T's eagerness to tailor the regulation of CMRS providers to its own network configuration underscores the degree to which equal access obligations generally constitute nothing more than an IXC windfall at the expense of cellular providers and their customers.

Declaration of Bruce M. Owen, Attachment 1 to Comments of McCaw Cellular Communications, Inc. (Sept. 12, 1994), at ¶ 9.

conclusion that "decisions on interconnection and bundling are best left to the market rather than being subjected to regulation":

There is no persuasive evidence that obligations to provide interconnections, other than those that result from market forces, would have significant benefits, but such obligations are likely to have substantial costs.

Interconnection obligations, as well as other types of regulation such as mandatory unbundling of services sold to CMRS resellers, would therefore be likely to harm consumers. Neither cellular systems nor CMRS providers control essential facilities. Regardless of concentration levels, there is no sound basis for a conclusion that CMRS providers have been exercising significant market power. There is evidence of sufficient competition, and concentration will fall substantially over the next several years. Consequently, there is no empirical basis for believing that there is a problem with market performance that would warrant regulating CMRS interconnection decisions or the relationships between facilities-based CMRS providers and resellers. Overall I conclude that conditions warrant forbearance from regulation. 30/

The final point to note in this regard is that the above reasoning also applies with similar force to the Commission's equal access proposal. Although McCaw obviously has made a business decision to accept such obligations in order to complete its transaction with AT&T, the implicit logic of Dr. Owen's observations holds true: equal access obligations will yield no significant benefits, but they will result in substantial costs.

IV. CONCLUSION

Extending equal access obligations to independent cellular providers is a bad idea whose time should never come. The Commission's tentative conclusion that such obligations will benefits cellular customers is wrong as a matter of law and policy. There is no public interest supporting the Commission's proposed regulatory intervention in the CMRS marketplace, and Vanguard urges the Commission to reconsider its intent to do so.

 $[\]underline{\underline{10}}$. at ¶ 111.

Respectfully submitted,

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